REPORT OF EXAMINATION
OF THE

ALLIANZ UNDERWRITERS
INSURANCE COMPANY

AS OF
DECEMBER 31, 2003

Participating State
and Zone:

California

Filed June 10, 2005

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Los Angeles, California
April 20, 2005

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV-Western
Commissioner of Insurance and Securities
Montana Department of Insurance
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

ALLIANZ UNDERWRITERS INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 2350 Empire Avenue, Burbank, California 91504.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2003. This examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; and sales and advertising.

This examination was conducted concurrently with the examination of the Company's parent, Allianz Global Risks US Insurance Company and its affiliate, Fireman's Fund Insurance Company.

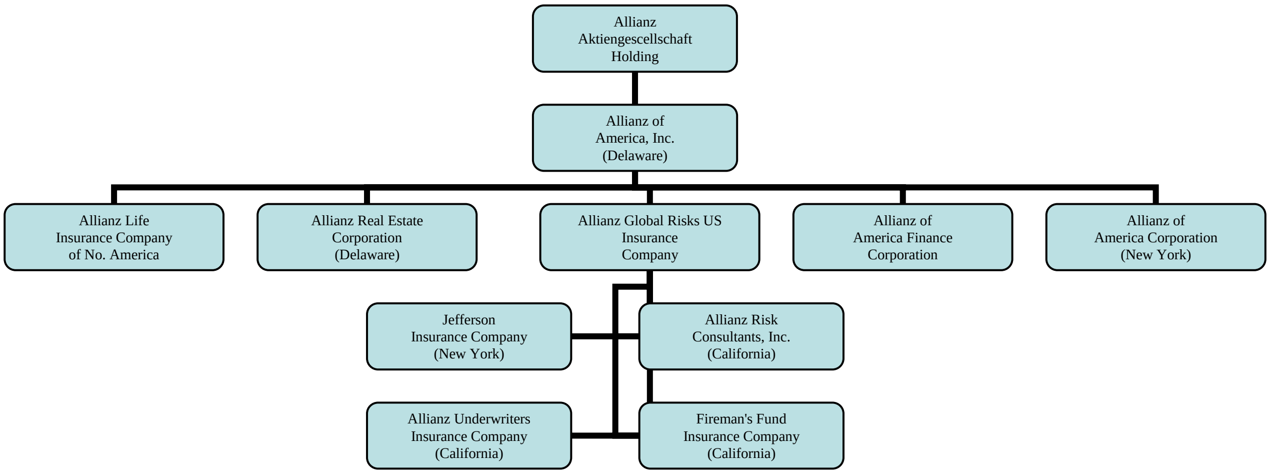
COMPANY HISTORY

The Company was incorporated as Allianz Underwriters, Inc., on June 21, 1978, under the laws of California. It began business on December 20, 1978. The Company's name was changed to its current name in 1983. The Company is currently wholly-owned by Allianz Global Risks US Insurance Company (AGR US) which, in turn, is owned by Allianz of America, Inc. (AZOA), a holding company. Effective November 1, 1997, AZOA contributed its investments in Fireman's Fund Insurance Company (FFIC), Jefferson Insurance Company (JIC) and the Company to AGR US. Under this new organizational structure, FFIC, JIC, and the Company continue to report directly to AZOA.

During the period covered by this examination, the Company's parent, AGR US, made a total of $9 million in surplus contributions to the Company. The contributions increased gross paid-in and contributed surplus from $45.5 million to $54.5 million.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Allianz Global Risks US Insurance Company (AGR US) which is owned by Allianz of America, Inc. (AZOA), a Delaware holding company. The ultimate controlling entity is Allianz Aktiengescellschaft Holding, Berlin and Munich. The following abridged organizational chart illustrates the Company's relative position within the holding company structure (all ownership is 100%):



Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2003 follows:

<u>Directors</u>

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Stephan A. Schleisman Munich, Germany	Chairman of the Board Allianz Global Risks US Insurance Company
Kevin R. Callahan(*) Kenilworth, Illinois	President and Chief Executive Officer Allianz Global Risks US Insurance Company Allianz Underwriters Insurance Company
Paul D. Kaduk Thousand Oaks, California	Executive Vice President, Secretary and Treasurer Allianz Global Risks US Insurance Company Allianz Underwriters Insurance Company
Jan Richard Carendi Gmund Waakirchen, Germany	Member of Board of Management Allianz AG
Paul M. Saffert Novato, California	Chief Financial Officer Allianz of America

Principal Officers

Name	Title
Kevin R.Callahan (*)	President and Chief Executive Officer
Dennis L. Raab (**)	Senior Vice President, Chief Financial Officer and Treasurer
Edman Lee Chin	Vice President and Controller
Frank Kwon	Vice President and Actuary
Ronald M. Clark	Assistant Secretary
Brian G. Daly	Senior Vice President
Eric H. Joost	Senior Vice President
Brent Sorenson	Senior Vice President

(*) resigned as President and Chief Executive Officer on December 3, 2004 and replaced by Tom Geissler

(**) resigned as Executive Vice President, Chief Financial Officer and Treasurer on March 9, 2005 and replaced by Norbert Lommer.

Management Agreements

Investment Advisory Agreement: Effective May 1, 1980, the Company appointed Allianz Investment Corporation, an affiliate, as its investment advisor with respect to the management of its investment portfolio. Compensation is based on the assets under supervision. The following is the amount paid by the Company during the examination period:

Year	Amounts
2000	$44,669
2001	$78,835
2002	$31,963
2003	$38,293

Service Agreement: Effective April 1, 1991, the Company entered into a Service Agreement with its affiliate, Fireman's Fund Insurance Company (FFIC), in which FFIC provides legal, risk management, corporate audit functions, loss control, premium audit functions, and mainframe computer resources. Reimbursement is based on actual costs. The following is the amount paid by the Company for these services during the examination period:

Year	Amounts
2000	$295,596
2001	$197,954
2002	$7,836
2003	$6,252

Executive and Professional Service Agreement: This agreement was effective January 1, 1993 and is renewed annually by the Company. Under the terms of the agreement, AGR US provides the Company with the services of its Chairman and Executive Vice President of Finance at an annual rate of compensation equal to a fixed percentage of their salaries including secretarial and support staff. AGR US also provides the following departmental services: actuarial; accounting; administrative; corporate affairs; Sprint (communication services); financial; internal audit; electronic data processing; and property and casualty claims services. The following is the amount paid by the Company to AGR US as compensation for these services during the examination period:

Year	Amounts
2000	$4,429,623
2001	$2,599,196
2002	$1,363,564
2003	$5,723,015

Tax Reimbursement Agreement: The Company and its parent file a consolidated federal income tax return under the terms of a Tax Reimbursement Agreement. The Company's tax liability, under the terms of this agreement, is the same as it would have been had it filed on a separate stand-alone basis.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in California, Missouri and New York. Operations elsewhere are conducted on a surplus line or on a nonadmitted basis. Business is generated by approximately 50 brokerage firms. Of the $12.5 million direct premiums written in 2003, $7 million (55.8%) was written in New Jersey followed by Illinois with $1.2 million (9.8%). Direct premiums written in California as of year end 2003 was approximately $500,000. As a specialty carrier, underwriting activities are confined to the writing of excess and surplus lines of insurance. Coverage includes umbrella and excess umbrella, excess liability, and primary and excess property coverage.

LOSS EXPERIENCE

The following is a summary of the Company's loss experience, as reported by the Company, for the last five years:

Description	Year/Amounts (000 Omitted)				
	1999	**2000**	**2001**	**2002**	**2003**
Net Premiums Earned	$ 4,776	$ 4,757	$ 4,212	$ 3,014	$ 1,015
Net Losses and Loss Expenses Incurred	6,530	5,327	8,468	8,384	1,003
Net Other Underwriting Expense Incurred	767	604	(176)	(27)	441
Net Income (Loss) from Underwriting	$ (2,521)	$(1,174)	$ (4,080)	$ (5,343)	$ (429)
Net Investment Income (Loss)	2,550	2,272	1,266	(1,780)	2,080
Net Income (Loss)	$ 29	$ 1,098	$ (2,814)	$ (7,123)	$ 1,651

As reflected above, the Company has experienced underwriting losses in the last five years ranging from $0.4 million to $5.3 million. The cumulative net investment gains more than offset the cumulative underwriting losses for three out of the most recent five years. The aggregate five years of underwriting losses totaled $13.5 million and the investment and other income was $6.4 million, which resulted in a total five-year net loss of $7.1 million.

At year-end 2004, the Company reported a net underwriting loss of $362 thousand and a net income of $792 thousand.

REINSURANCE

Reinsurance Pooling Agreement

Effective January 1, 1987, the Company entered into a reinsurance pooling agreement with its parent, Allianz Insurance Company (AIC). In July, 2003, Allianz Insurance Company changed its name to Allianz Global Risks US Insurance Company (AGR US). The purpose of the agreement is to pool, through reinsurance, the results of underwriting operations between the two companies. Under the terms of the agreement, the Company cedes 100% of the following (net of other reinsurance) to AGR US: unearned premium reserves; claim reserves (including losses and loss adjustment expenses); reserves for incurred but not reported losses; net written premiums; net payment of losses; loss adjustment expenses; and underwriting expenses. These amounts, together with amounts directly attributable to AGR US, represent the pooled business of which 5.2% is retroceded back to the Company.

As noted previously in this examination report and as part of an action plan to increase its RBC ratio, the Company amended the intercompany pooling agreement to cede all its business to AGR US on a gross basis (prior to the attachment of ceded reinsurance). In addition, the amendment changed the retrocession from AGR US to the Company from 5.2% to 2.0%, effective September 30, 2003.

Assumed

Other than the reinsurance pooling agreement with its parent, the Company's does not have any reinsurance assumed business.

Ceded

The Company has designed its reinsurance program to limit its retention to $20 million for all risks insured with the exception of builders' risk and energy, which the Company retains $1 million. In addition to the reinsurance pooling agreement, the Company's reinsurance program is summarized as follows:

Type of Contract	Reinsurer's Name	Coverage	Reinsurer's Limits	Company's Retention
Property Lines				
Property Quota Share	Allianz Global Risks Reinsurance Co.	Property	90% of $200 million	10% of $200 million
Property Lines (Builders' Risk)				
Technical Quota Share	Allianz Global Risks Reinsurance Co.	Builders Risk	90% of $100 million	10% of $100 million
Technical Per Risk Excess of Loss (Runoff)	Allianz Global Risks Reinsurance Co. and Munich Reinsurance Co.		$1.5 million each and every loss	$500,000 Probable Maximum Loss per risk
Casualty Lines				
Casualty Quota Share (Runoff)	Allianz Global Risks Reinsurance Co.	Liability	90% of $10 million	10% of $10 million
Energy (includes property coverage for drilling plant, oil refinery, power plant, etc.)				
Energy Quota Share	Allianz Global Risks Reinsurance Co.	Property	90% of €100 million	10% of €100 million
All Lines				
Stop Loss	Allianz Global Risks Reinsurance Co.	All Lines	200% of net earned premium in excess of 120% net retention (net loss incurred plus net original costs divided by net earned premium)	

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2003

Underwriting and Investment Exhibit for the Year Ended December 31, 2003

Reconciliation of Surplus as Regards Policyholders
from December 31, 1999 through December 31, 2003

Statement of Financial Condition
as of December 31, 2003

Assets	Ledger and No ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 64,785,791	$	$ 64,785,791	
Stocks:				
Common stocks	856,240		856,240	
Cash and short-term investments	1,828,761		1,828,761	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	160,290	342,866	(182,576)	
Premiums, agents' balances and installments booked but deferred and not yet due	375,092		375,092	
Reinsurance recoverable on loss payments	357,482		357,482	
Net deferred tax asset	3,919,121	2,580,238	1,338,883	
Guaranty funds receivable or on deposit	39,513		39,513	
Interest, dividends, and real estate income due and accrued	793,444		793,444	
Receivable from parent, subsidiaries and affiliates			5,049,723	
Equities and deposits in pools and associations	52,876		52,876	
Aggregate write-ins for other than invested assets	313,398		313,398	
Total assets	$ 73,482,008	$ 2,923,104	$ 70,558,904	

Liabilities, Surplus and Other Funds				
Losses			$ 7,617,209	(1)
Loss adjustment expenses			3,293,485	(1)
Commissions payable, contingent commission and other similar charges			121,111	
Other expenses			112,667	
Taxes, licenses and fees			1,058,835	
Unearned premiums			470,942	
Ceded reinsurance premiums payable			2,247,378	
Funds held by company under reinsurance treaties			1,302,134	
Amounts withheld or retained by company for account of others			1,692,865	
Payable to parent, subsidiaries and affiliates			1,984,367	
Aggregate write-ins for liabilities			(967,876)	
Total liabilities			18,933,117	
Common capital stock		$ 4,500,000		
Gross paid-in and contributed surplus		54,500,000		
Unassigned funds (surplus)		(7,374,213)		
Surplus as regards policyholders			51,625,787	
Total liabilities, surplus and other funds			$ 70,558,904	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2003

Statement of Income

Underwriting Income		
Premiums earned		$ 1,015,443
Deductions:		
Losses incurred	$ 613,185	
Loss expense incurred	390,034	
Other underwriting expenses incurred	440,863	
Total underwriting deductions		1,444,082
Net underwriting loss		(428,639)
Investment Income		
Net investment income earned	5,023,579	
Net realized capital gains	1,104,002	
Net investment gain		6,127,581
Other Income		
Net loss from agents' balances charged off	(28,750)	
Aggregate write-ins for miscellaneous income	(4,701,916)	
Total other income		(4,730,666)
Net income before federal income taxes		968,276
Federal income taxes incurred		(682,831)
Net income		$ 1,651,107

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002		$ 42,371,183
Net income	$ 1,651,107	
Net unrealized capital gain	284,555	
Change in net deferred income tax	433,254	
Change in nonadmitted assets	(302,085)	
Change in provision for reinsurance	7,187,773	
Change in surplus as regards policyholders		9,254,604
Surplus as regards policyholders, December 31, 2003		$ 51,625,787

Reconciliation of Surplus as Regards Policyholders
from December 31, 1999 through December 31, 2003

Surplus as regards policyholders, December 31, 1999, per Examination			$ 44,678,336
	Gain in Surplus	Loss in Surplus	
Net loss	$	$ 7,188,150	
Net unrealized capital gain	96,812		
Change in net deferred income tax	1,738,265		
Change in nonadmitted assets		2,462,288	
Change in provision for reinsurance	3,809,535		
Cumulative effect of changes in accounting principles	955,214		
Capital changes: Paid-in	9,000,000		
Aggregate write-ins for gains in surplus	998,063		
Totals	$ 16,597,889	$ 9,650,438	
Net increase in surplus as regards policyholders			6,947,451
Surplus as regards policyholders, December 31, 2003, per Examination			$ 51,625,787

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The California Department of Insurance (CDI), pursuant to California Insurance Code (CIC) Section 733(g), retained an independent actuary for the purpose of providing a full actuarial evaluation of the Company's loss and loss adjustment expense reserves as of December 31, 2003. Based on the analysis by the independent actuary and a review of their work by a Casualty Actuary from the CDI, the Company's reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination report.

As of year-end 2003, the Company reported gross and net reserves for asbestos and environmental (A&E) claims totaling $4 million and $0.9 million, respectively. The Company's exposure to A&E losses is primarily through general liability and commercial multi-peril policies written since 1979. The Company completed an asbestos and environmental reserve analysis in 2003, which ultimately resulted in the recording of a reduction $7.8 million of gross reserves attributed to asbestos-related exposure arising from the sale of commercial multi-peril, products liability and other liability policies. The analysis included a review of the ultimate, gross asbestos losses and allocated loss adjustment expense reserves for accident year 1984 through 2003. As of year-end 2004, the Company reported gross and net reserves for A&E claims totaling $4.1 million and $1 million, respectively.

(2) Provision for Reinsurance

The Company and its parent, Allianz Insurance Company (AIC), sold past due and nonadmitted reinsurance recoverables to Allianz of America, Inc. (AZOA), under the terms of an Agreement for Purchase and Sale of Nonadmitted and Past Due Reinsurance Recoverables (Agreement) effective December 31, 2001 and December 23, 2002. The recoverables sold include amounts due from reinsurers for amounts paid by the Company involving environmental claims, multi-policy claims and multi-year or multi-layer claims.

Although the Agreement between the Company, AIC and AZOA indicated that the sale was without recourse, a condition of the Agreement allowed the Company to repay AZOA in the following year. The sale is in violation of Statements of Statutory Accounting Principles (SSAP No.18, Paragraph 35). SSAP No.18 states, in part, that "A transfer of receivables with recourse shall not be recognized as a sale but rather, as a financing. A transfer of receivables without recourse shall only be recognized if the transferor receives cash for the receivables. The sale shall be recognized when cash is received." Since the Company repaid AZOA in the following year the transaction was with recourse and should not be recognized as a sale. It was recommended that the Company discontinue the practice of selling past due and nonadmitted reinsurance recoverables unless it is in strict compliance with SSAP No.18. The Company complied with this recommendation in 2003.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Provision for Reinsurance – Page (12): It was recommended that the Company discontinue the practice of selling past due and nonadmitted reinsurance recoverables unless it is done in strict compliance with SSAP No.18. The Company complied with this recommendation in 2003.

Previous Report of Examination

None.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

________/S/________________
Duane Armstrong, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California